

Message Text

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SUBJECT: MAJOR PROJECT: CARACAS METRO EQUIPMENT

REF: (A) CARACAS 3422 (B) CARACAS 881 (C) STATE 82099

1. BEGIN UNCLASSIFIED: THE FRG CHALLENGED THE TWO FRONT RUNNERS FOR THE CARACAS SUBWAY EQUIPMENT SALE - THE JAPANESE AND FRENCH- WITH AN OFFER TO PURCHASE HARD-TO-MARKET VENEZUELAN HEAVY CRUDE. IF THE GOV AGREES TO BUY THE SUBWAY ROLLING STOCK, TRACK AND RELATED EQUIPMENT FROM SIEMANS, ANOTHER GERMAN COMPANY WOULD SIGN A "PARALLEL" CONTRACT WITH PETROLEOS DE VENEZUELA TO PURCHASE APPROXIMATELY 23 MILLION BARRELS OF BOSCAN, BACHAQUERO AND CEUTA CRUDE, AT WORLD MARKET PRICES (IF DELIVERY WERE OVER A 3-YEAR PERIOD THIS WOULD AMOUNT TO ABOUT 20,000 BARRELS/DAY). ASPECTS OF THE GERMAN OFFER WHICH ARE BEING GIVEN GREATEST EMPHASIS ARE (1) THE CHANCE FOR PETROLEOS TO PENETRATE THE EUROPEAN MARKET, (2) THE FAVORABLE EFFECT OF THE TRANSACTION ON VENEZUELA'S BALANCE OF TRADE, AND (3) THE PROTECTION AFFORDED (WITH THE PETROLEUM PURCHASE CONTRACT DENOMINATED IN MARKS, OR PROCEEDS OF THE CONTRACT INVESTED IN MARKS-DENOMINATED, INTEREST-BEARING BONDS) AGAINST ADVERSE EXCHANGE RATE CHANGES. END UNCLASSIFIED.

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2. BEGIN LOU: CARACAS METRO OFFICIALS CONFIRMED THAT THE GERMANS HAD MADE SUCH AN OFFER, NOT TO METRO, BUT TO "HIGHER ECHELONS" OF THE GOV. METRO OFFICIALS WERE SOMEWHAT IRRITATED WITH THE GERMAN OFFER AT THIS STAGE AS THEY SEE IT RESULTING IN FURTHER DELAY IN SELECTING A COMPANY TO INSTALL THE SUBWAY EQUIPMENT. IMPRESSION GIVEN BY METRO OFFICIALS WAS THAT FRENCH, WITH SGTE, HAD BID WITHIN THEIR GRASP.

3. EMBASSY COMMENT: GERMAN OFFER IS A SHREWD PLOY WELL -TIMED TO TAKE ADVANTAGE OF GOV CONCERNS ABOUT THEIR BALANCE OF PAYMENTS AND TRADE AS WELL AS LOSSES DUE TO EXCHANGE RATE FLUCTUATIONS ON CONTRACTS DENOMINATED IN MARKS (E.G. GERMAN FIRMS WORKING ON SIDOR PLAN IV EXPANSION) PROPOSED OFF-SET DEALS OF PURCHASES OF CRUDE IN EXCHANGE FOR MAJOR BID AWARDS ARE NOT NEW. HOWEVER, THE GERMAN CASE IS THE FIRST, TO OUR KNOWLEDGE, WHERE THERE HAS BEEN A DIRECT, PUBLIC LINKAGE OF THE TWO TRANSACTIONS. THERE WAS A PURPORTED BRAZILIAN OFFER TO BUY MORE CRUDE WHILE BIDS WERE BEING EVALUATED FOR THE GURI DAM CONTRACT; AND BRAZIL HAS INCREASED ITS PURCHASES OF VENEZUELAN CRUDE. THE LINKAGE WAS NOT EXPLICIT, AND GIVEN THE FACT THAT THE BRAZILIANS MADE THE LOWEST RESPONSIVE BID; THEIR ALLEGED OFFER TO BUY MORE CRUDE FROM VENEZUELA MAY HAVE BEEN ONLY "INSURANCE". SEE PARA 4 REF A FOR APPARENT FRENCH NON-RESPONSIVENESS TO IDEA OF TAKING MORE VENEZUELAN PETROLEUM EXPORTS.

VAKY

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